DCI

Cabinet Luncheon Meeting

17 December 1982

Please return to:
SA/DCI/IA

SECRET

Contents

THE WHITE HOUSE

WASHINGTON

CABINET TIME

December 17, 1982

12:00 p.m.

Cabinet Room

AGENDA

1. Agricultural Export Policy/CCFA (CM#204)
2. Export Financing/CCCT (CM#211)
3. Update on DISC Replacement/CCCT (CM#282)
4. Antitrust Barriers to U.S. Competitiveness/CCCT (CM#074)
5. Industrial Adjustment Policy/CCCT
6. New Negotiating Authority/CCCT
7. Renewal of Generalized System of Preferences/CCCT

EXPORT FINANCING

A

ISSUE

As part of the Administration's trade strategy initiative, should an increase in Eximbank's resources be sought? If so, what would be the appropriate program mix?

BACKGROUND

Our major trading partners provide assured financing and some provide subsidized financing for their exports. In recent years, U.S. exporters have lost some major sales because of these foreign credit subsidies. The return of interest rates to more normal levels and the Administration's negotiating success in reducing foreign credit subsidies should continue to reduce the financing problem. However, the export community is concerned that should there again be a significant gap between OECD minimum rates and U.S. market rates, they would be at a disadvantage in export markets. This could contribute to a significant erosion in public support for an open trading system.

OPTIONS

1. An Eximbank budget of $3.8 billion in direct credits and $12 billion in guarantees and insurance. If foreign credit subsidies again become a significant problem, Eximbank could finance interest subsidies on up to $3 billion in guaranteed loans by increasing its borrowings to cover the losses.

Advantages

-- Would respond to current commercial circumstances in which access to financing, rather than cost, is likely to be the predominant export finance problem.

-- Would demonstrate more strongly to U.S. business community the Administration's determination to support exports.

-- Use of interest subsidy would have less current budget effect than additional direct credit authority.

Disadvantages

-- Would be more costly to the U.S. Government than use of additional direct credits if option is exercised.

-- Could increase USG demand on credit markets relative to Options 3 and 4.

-- Could undermine discipline of Federal budget process if subsidized guaranteed loans are substituted for direct credits without Congressional review or appropriation.

SUPPORT USTR.

2. An Eximbank budget of $6.5 billion in direct credits and $8.0 billion in guarantees and insurance.

Advantages

-- Provides greatest assurance to U.S. business community that foreign credit subsidies will be neutralized.

-- Less costly to U.S. Government than interest subsidy approach.

-- Consistent with control and disclosure objectives of credit budget process.

Disadvantages

-- Has greatest adverse initial budget impact and would result in greater budget outlays in the short to medium term than Options 1, 3 and 4.

-- Less ability and incentive to move toward a system of guaranteeing private credit.

-- Could increase USG demand on credit markets relative to Options 3 and 4.

SUPPORT Eximbank, Commerce.

3. An Eximbank budget of $3.8 billion in direct credits and $10 billion in guarantees and insurance.

Advantages

-- Would respond to current commercial circumstances in which access to financing, rather than cost, is likely to be the predominant export finance problem.

Disadvantages

-- Could increase USG demand on credit markets relative to Option 4.

-- Could not give the business community the assurance it is seeking that the government will take action to offset foreign export credit subsidies if that becomes necessary.

SUPPORT Treasury.

4. No increase in Eximbank's FY 1984 resources over FY 1983. An Eximbank budget of $3.8 billion in direct credits and $8.0 billion in guarantees and insurance.

Advantages

-- Holds down government expenditures and credit budget consistent with Administration policy of restraining Federal credit absorption.

-- Does not propose that the Bank's program be restructured on an entitlement-like basis, which Options 1 and 2 would do.

Disadvantages

-- Does not assure trade community that U.S. Government would neutralize increased foreign government export subsidies.

-- Could result in lost export sales.

SUPPORT OMB.

DECISION

_____ 1. An Eximbank budget of $3.8 billion in direct credits and $12 billion in guarantees and insurance. If foreign credit subsidies again become a significant problem, Eximbank could finance interest subsidies on up to $3 billion in guaranteed loans by increasing its borrowings to cover the losses.

_____ 2. An Eximbank budget of $6.5 billion in direct credits and $8.0 billion in guarantees and insurance.

_____ 3. An Eximbank budget of $3.8 billion in direct credits and $10 billion in guarantees and insurance.

_____ 4. No increase in Eximbank's FY 1984 resources over FY 1983. An Eximbank budget of $3.8 billion in direct credits and $8.0 billion in guarantees and insurance.

A

INDUSTRIAL REVENUE BONDS FOR EXPORTS

ISSUE

Should the Administration seek changes in the Internal Revenue Code that would authorize the use of tax-exempt industrial revenue bonds to finance exports?

BACKGROUND

A number of states are developing proposals for state export financing programs that would supplement the activities of the Eximbank. Some states are considering issuing tax-exempt bonds with which to create a revolving fund that could be used for export sales. If the terms of the financing were consistent with those of the OECD Export Credit Arrangement and the financing were not specifically directed toward exports but could be used for domestic sales as well, this approach would be consistent with our GATT obligations. To implement such a program, the Administration would have to seek changes in the Internal Revenue Code authorizing the use of tax-exempt bonds for financing exports.

Advantages

-- Would supplement the resources of the Eximbank by ensuring access to financing, particularly for small and medium-sized businesses.

-- Would ensure that some export sales that currently do not go forward are made.

-- Would be perceived as Administration support for strong export policy.

Disadvantages

-- Issuing tax-exempt bonds means a direct reduction in revenues to the Treasury; and, adding to already existing tax expenditures may make it more difficult to defend the 1983 personal tax reduction.

-- Would be inconsistent with Administration efforts to ensure that export credit subsidies are selectively targeted as subsidized financing would be available and sought by exporters even if there was no foreign competition.

-- Would contribute to further crowding out of private borrowing in the capital markets and further reduces benefits of tax-exempt financing for municipalities.

SUPPORT USTR, Commerce

B

TRADE ADJUSTMENT ASSISTANCE FOR FIRMS

BACKGROUND

Trade Adjustment Assistance for firms is authorized by the Trade Act of 1974 to assist the adjustment of firms injured by import competition. The President's 1983 budget proposed termination of the program, although continuing resolutions have sustained the program. Commerce has not requested 1984 funding.

USTR believes that a trade adjustment assistance program for firms is needed as an alternative to import protection as a means of responding to pressures generated by firms experiencing heavy import competition. USTR acknowledges the deficiencies of the existing program, however, and would propose the need for a modified approach. Since the specific elements of such a program would need to be worked out, USTR would suggest that in the interim funding for the existing program be maintained at current levels of approximately $28 million a year.

If special assistance is provided to import-impacted firms, however, this would favor certain firms over other firms facing adjustment problems for nontrade reasons.

OPTIONS

1. The Office of the U.S. Trade Representative and the Department of Commerce should develop a new trade adjustment assistance program for firms, reporting back to you within the next two months.

Advantages

-- Provides an alternative to protectionist legislation.

-- Provides an alternative to import protection when industry relief is sought under U.S. law.

-- Provides a basis for further trade liberalization if the perception exists that those firms potentially hurt will be assisted.

Disadvantages

-- Would be a reversal of current U.S. policy not to target special assistance to select groups. The Administration's macroeconomic policies should provide for all U.S. firms.

-- TAA for firms can be described as giving money to losers, since import injury must be demonstrated by loss of sales. It will be difficult to assure that assistance made available addresses the impact of trade, as opposed to poor management, etc.

SUPPORT USTR, USDA.

2. The Administration should terminate Trade Adjustment Assistance for firms.

Advantages

-- "Saves" $27 million spent on current TAA program.

-- Allows free market to determine the level of R&D expenditures.

Disadvantages

-- Reduces the overall effectiveness of the trade package that we might be able to offer Congress to diffuse pressure for protectionist legislation.

-- Eliminates an alternative to import protection in individual import relief cases.

-- Delays adjustment to increased imports.

SUPPORT OMB, Commerce.

DECISION

_____ 1. The Administration should develop a new trade adjustment assistance program for firms.

_____ 2. The Administration should terminate Trade Adjustment Assistance for firms.

B

TRADE ADJUSTMENT ASSISTANCE FOR WORKERS

BACKGROUND

Trade Adjustment Assistance for workers has been in place in various forms since 1962. The program is due to expire, and the Department of Labor has proposed that the program be terminated. Instead, DOL supports concentrating on an overall effort to help displaced workers generally.

USTR, on the other hand, believes that the program should be maintained with modifications, in light of public and Congressional concern regarding the impact of import competition on our key industries. USTR sees trade adjustment assistance for workers as one element of the overall package designed to diffuse import protection in specific cases where industries can petition for import relief under U.S. law.

If it is agreed that trade adjustment assistance is desirable, one approach could be to modify the existing program to allow workers in an industry to seek trade adjustment assistance benefits by petitioning the International Trade Commission for a determination of whether increased imports contributed importantly to their job loss. If a determination is made on this basis, or if the ITC makes a determination that an industry has been seriously injured by imports in an import relief case, workers in that industry certified by their employers as being permanently displaced would be eligible for retraining and/or relocation support. Retraining could be provided through vouchers.

OPTIONS

1. The Administration should propose a TAA program for workers as part of our trade strategy initiative.

Advantages

-- Provides an alternative to import relief when the ITC finds, under U.S. law, that imports are injuring a U.S. industry.

-- Gives Congress, which is convinced TAA is critical, an alternative in resisting protectionist pressures on the Hill.

-- Allows greater potential for trade liberalization, by providing a clearly identifiable program of adjustment benefits for those subsequently injured.

-- Allows us to take the lead on an issue that Congress is almost certain to take up anyway.

Disadvantages

-- Provides extra benefits just to trade-affected workers, while others experiencing equally or more severe structural unemployment are not aided. Conflicts with Administration policy to provide equitable assistance to all unemployed, without regard to cause of unemployment.

-- High risk that in any TAA extension Congress could expand cash benefits, putting at risk significant budget savings realized in 1981 Reconciliation Act.

-- If any TAA program we develop is judged insufficient on the Hill, it may not have the desired effect of preventing protectionist legislation.

SUPPORT USTR, USDA.

1.A. If it is agreed to continue a worker trade adjustment assistance program, the Administration should propose a $170 million program for training, job search and relocation grants for displaced workers in industries certified by the ITC as being import-impacted.

Advantages

-- Encourages workers to leave dying industries.

-- Certifying on an industry, rather than a firm basis would significantly shorten the certification process, to speed flow of assistance to affected workers and to eliminate many current inequities.

-- Provides clear alternative to import protection.

-- Limits costs and ensures better use of benefits than the current program, by providing benefits only to those certified by former employers as being permanently displaced.

Disadvantages

-- It may prove difficult to shorten the certification process without opening up TAA to workers for whom benefits were not intended, expanding costs without benefits.

-- To maintain "contributed importantly" import test beyond FY 1983 is a reversal of Administration policy.

-- The ITC might be deluged with petitions for TAA that it is not staffed to process.

-- The proposal may not be deemed as sufficiently helpful to displaced workers so as to fend off protectionist pressures.

SUPPORT USTR, USDA.

2. The Administration should develop a beefed-up general policy for helping displaced workers which could be included as part of our political trade strategy initiative.

Advantages

-- Assistance (training, job search, etc.) available immediately to displaced workers, without need to go to TAA certification process.

-- Consistent with Administration policy of treating unemployed workers equitably, regardless of cause of unemployment.

-- If sufficiently strengthened beyond the existing general job training program, we could assert that this new program was prompted by the need to better assist the trade-impacted.

Disadvantages

-- Not limited to trade-affected workers; may not be as strong a bargaining chip when fighting off protectionist measures on the Hill or in individual import relief cases.

-- No evidence government knows what jobs to train displaced workers for, or that government intervention can help dislocated workers.

SUPPORT Will depend on how final product looks.

3. The Administration should consider the problems of trade-impacted workers within the context of its general review within the CCEA of all structurally unemployed workers.

Advantages

-- Permits decision on assistance for trade-affected workers to be made in context of consideration being given to the development of a new, general Administration policy on employment and training programs, designed to deal with problems of structural unemployment, of which trade is but one facet. Certain proposals under review could be of significant benefit to trade-impacted workers.

Disadvantages

-- Increases the likelihood that the program would be a general one, rather than a special purpose TAA program.

-- If no program is developed, there will be a major gap in our trade initiative.

SUPPORT Treasury, Labor, OMB, CEA.

DECISION

_____ 1. The Administration should have a trade adjustment assistance program for workers as part of our trade strategy initiative.

_____ 1.A. The Administration should propose a $170 million program for retraining trade-impacted workers.

_____ 1.B. USTR and the Department of Labor should be asked to develop an alternative program for trade-impacted workers.

_____ 2. The Administration should develop a general program for displaced workers that would be part of our trade package.

_____ 3. The Administration should make a decision on a more comprehensive program for displaced workers generally as part of the CCEA review.

_____ 4. The Administration should terminate the worker Trade Adjustment Assistance program.

C

Antitrust Barriers
(2 issues)

First Issue

Should the Administration submit legislation to amend the antitrust laws to encourage joint research by large U.S. companies and, if so, what form should it take?

Objective

- To enhance the competitiveness of large U.S. firms in world markets by allowing those firms to conduct cooperative R&D on a scale comparable to foreign firms.

Analysis

Because of fear of violating antitrust laws, large U.S. firms are not conducting cooperative R&D on a scale comparable with that of large companies of our major trading partners. Consequently, the U.S. is handicapped in maintaining its technological advantage.

In 1890, when the Sherman Act became law, technological problems were neither so large nor so complex as to require technical collaboration among large firms. Essentially, our current antitrust law still adheres to this view. Our major trading partners, however, have tailored their policies and antitrust laws to recognize that the ability to solve modern technical problems, and to compete successfully in international markets, often requires cooperation among large firms. In contrast, the U.S. antitrust laws governing cooperative research have not been amended since 1914.

There is mounting evidence that the ability of United States firms to compete with their foreign counterparts is eroding. This decline in competitiveness has no single cause but is rather the result of a number of forces operating together. Prominent among these forces is the policy of foreign governments to target individual industries, where the U.S. has a technological lead, for accelerated government support and development.

Among the governments targeting specific industries are those of France, Japan and, to a lesser degree, West Germany. In order to illustrate the results of that targeting, the performance of three targeted industries, computers,

electronic components (microelectronics), and aerospace are examined here.

One measure of the competitiveness of a given industry is its ability, over time, to compete for exports in the international marketplace. Over the decade from 1970 to 1980, each of the targeted U.S. industries has suffered a decline in the percentage share of its respective export market among 14 leading industrial countries:

	1970	1980
Aerospace	60.8	50.5
Computers	38.1	36.2
Electronic Components	22.1	17.1

These declines are mirrored in matching declines in the market shares which U.S. firms enjoy in their domestic markets. Import penetration as a percent of shipments in the United States increased in each targeted industry in the years from 1972 to 1981:

	1972*	1981
Aerospace	3.3	9.3
Computers* (base 1977)	3.4	7.3
Electronic Components	8.8	18.5

Whether looked at from the point of view of import penetration or share of international market, each targeted industry has suffered an erosion in its position.

A factor in these trends is undoubtedly the governmental policies of other nations, which encourage collaborative research and development among large national companies. The policies of the United States, by contrast, inhibit such efforts. Japan, for example, has actively sought collaborative research efforts by the various firms in certain industries, for the express purpose of improving their international competitiveness. MITI has brokered the establishment of these cooperative efforts, and in some cases has subsidized them with direct funding. The United States, on the other hand, takes no role in the formation of cooperative ventures, and, for all practical purposes, discourages them on antitrust grounds.

U.S. firms are vulnerable under both the Sherman Act and the Clayton Act, should a cooperative venture be deemed anticompetitive, and face criminal sanctions and the possibility of triple damage awards from third party suits.

Compounding these difficulties, the antitrust obstacles presented to firms in the United States rise proportionately with the potential for the immediate marketability of products flowing from the cooperative research. On this point, the Antitrust Guide Concerning Research Joint Ventures, issued by the Department of Justice in 1980, notes that the closer the joint activity is to the development of specific marketable products, the less likely it is to be acceptable under the antitrust laws.

Meanwhile, the practice in other countries is to encourage the development of marketable products through cooperative research and development. The $400 million joint research effort in microelectronics begun in the late 1970's by the Japanese government, and the more recent program in electronic data processing and telecommunications equipment initiated by the French government, are examples of projects of this nature. Thus, the cooperative research and development activities least likely to receive favorable antitrust sanction in the United States are exactly those most likely to be exposed to increasing international competition. Nevertheless, the Department of Justice may challenge such activities by seeking an injunction on the grounds that they are anti-competitive.

Remedies for the problem have been suggested.

Last year H.R. 6262 was introduced in Congress. The bill would authorize the Attorney General to issue a certificate of review of proposed joint research programs which would limit the statutory remedies for antitrust violations arising from conduct specified in the certificate. It would preclude criminal and treble damage liability as well as private suits for injunctions, thus permitting only suits for actual damages and Government suits for injunctions.

The Department of Justice objected to the provisions of H.R. 6262, which assigned it a regulatory role in issuing certificates, on the grounds that it imposed an undue administrative burden. Department of Justice suggested as an alternative non-regulatory legislation which would not require a certificate but would eliminate the treble damage provisions of the antitrust laws for non-criminal actions involving joint research which were openly disclosed.

The non-regulatory approach suggested by Department of Justice is desirable since the elimination of certification would substantially lessen the administrative burden on industry and Government. However, it would not allow United States companies to conduct cooperative R&D on a scale comparable to foreign companies. To accomplish this,

amending legislation should provide, with respect to joint research activities only, for the elimination of treble damages, of criminal liability, and also of Federal and private suits for injunctions. Accordingly, only suits for actual damages would be permitted.

Working together, the Departments of Justice and Commerce, and OMB, could draft legislation to remedy the problem.

Alternative I

Develop and submit legislation along the lines described above.

Pros

- o Enhances innovation among large U.S. companies in instances where, because of the complexity or scale of the R&D project, single firms would seldom undertake the project.
- o Avoids duplication of R&D by individual companies.

Cons

- o Possibly reduces the number of firms independently conducting research in selected areas, an outcome that might diminish the productivity of our national research efforts given that success in R&D may depend importantly upon the number of separate units working in any research field.

Alternative II

Take no action.

Pros

- o Preserves current antitrust policy, thereby minimizing the possibility that cooperative R&D among large firms can serve as the seedbed for anticompetitive conduct.

Cons

- o Perpetuates, in high technology area, competitive disadvantage of large U.S. companies vis-a-vis major

foreign competitors, an outcome which could penalize domestic companies to the point where traditional concerns about competitive behavior among U.S. companies would no longer be relevant.

Recommendation

The Administration should submit legislation authorizing open joint research activities without such activities being subject to criminal and treble damage liability or to Federal and private suits for injunctions. The Department of Justice, in conjunction with the Department of Commerce, should immediately begin drafting such legislation for submission to OMB.

C

Antitrust Barriers

Second Issue

In light of the growth of global business, should antitrust practice be changed to revise the method by which market share is defined in antitrust cases in order to reflect world markets?

Objective

- To enhance the ability of U.S. firms to respond to mounting international competition by modifying the market share criteria Justice applies to prospective mergers and acquistions to take into account the growth of international trade and business and their effects on competitive conduct within the United States.

Analysis

There is growing concern that current antitrust enforcement policies operate to the detriment of the competitiveness of United States industries in world markets. The use of domestic market share as the yardstick to measure the competitive nature of mergers and acquisitions has the effect of preventing such activities, even when combinations might enhance the firms' worldwide competitive abilities. The problem is particularly acute in those U.S. industries that are confronted with strong challenges from abroad, and which must either improve their competitiveness or fail. Mergers and acquisitions offer a means for achieving economies of scale in production and operation. They may improve access to capital. Increased efficiency and investment, and, hence competitiveness, can be the outcome.

The first step taken by the Department of Justice in evaluating a prospective merger or acquisition is to define the geographic and product markets involved.

With the markets defined, Justice then analyzes the proposed merger against its published Merger Guidelines. Those guidelines set standards for horizontal mergers. In one case, which applies when the market is deemed to be "concentrated" because the four largest firms amount to at least 75 percent of total shipments, Justice will usually challenge mergers between firms accounting for the following market shares:

Acquiring Firm	Acquired Firm
4%	4% or more
10%	2% or more
15%	1% or more

The standards are somewhat less stringent in the second case, pertaining to unconcentrated markets:

Acquiring Firm	Acquired Firm
5%	5% or more
10%	4% or more
15%	3% or more
20%	2% or more
25%	1% or more

The geographic market definition is crucial to this process, since a given firm's market share will expand or shrink proportionately with the size of the defined market. The larger the market, the smaller is the market share of any one firm. Thus, under one approach to international market share analysis (which presumes that foreign producers are competing in the United States market through exports), mergers and acquisitions would be more permissible than would be the case under a domestic market share analysis. Conversely, under a pure domestic market share analysis, firms appear to be more dominant than they really are, and hence more subject to antitrust prosecution.

This line of reasoning can be extended to global market share analysis. Two U.S. based multinational companies, with substantial business at home and abroad, may propose merger or acquisition. Justice, if it limits its analysis to the domestic market shares of the two firms, may find grounds for objection. But if Justice were to take into account the shipments of major foreign producers in the same lines of business, where the shipments went to multiple foreign markets and also conceivably the United States, this more comprehensive view of global competition within the industry might lead Justice to conclude that the market share of the combined U.S. partners gives no grounds for concern about competitive conduct.

In short, the criteria and procedures by which Justice defines and measures market shares have an important influence on the ability of U.S. companies to merge or acquire one another. In a world characterized by increasing

global business, it can be argued that our criteria and procedures must keep pace with changing competitive conditions.

Alternative I

Demonstrate Administration recognition of the importance of this issue by having the President establish a task force to study the issue on a priority basis.

Pros

- Addresses the issue of whether some form of international or global market share, beyond that included in Justice's recent Merger Guidelines, should be considered in determining market share consequences of mergers or acquisitions under the U.S. Antitrust Laws.

- Could enhance the international competitiveness of U.S. industry.

Cons

- Could be seen as laying the ground for a shift in antitrust policy prejudicial to the interests of U.S. consumers.

Alternative II

Take no action.

Pros

- Does not jeopardize recent improvements made in antitrust merger policy.

- Avoids predictable criticism and objection from some parts of Congress.

Cons

- Fails to align antitrust policy and practice with the realities of the increasing global competition.

Recommendation

Direct the Departments of Justice and Commerce to establish a task force to analyze the implications of broadening, when appropriate, the market share concept to include world market

share calculations in mergers and acquisitions. Direct that the findings of the task force be forwarded to the President through the CCCT by June 30, 1983.

D

INDUSTRIAL ADJUSTMENT

ISSUE

Should we develop new adjustment assistance programs for workers and firms that would serve as alternatives to import relief and promote modernization and adjustment of trade-impacted workers and firms?

BACKGROUND

Many of America's basic manufacturing industries are experiencing high and rising unemployment and major financial losses which could result in significant bankruptcies. At the same time, imports are increasing in many of these same industries; Pressures for import protection are growing and may get out of control.

A trade adjustment assistance program for workers and firms could be developed as part of a broad Administration strategy to address these protectionist pressures and to help these groups adjust to changing competitive circumstances. These programs provide specific alternatives to import protection as a means of addressing the potentially negative pressures raised in public and in Congress for responding to increasing import competition. Many members of Congress seem to believe that the alternative of trade adjustment assistance for workers and firms is essential. These two programs can provide an easily-identifiable, clear alternative which the Administration can utilize as a policy tool to respond to increasing imports without closing our borders to the benefits of greater competition.

Moreover, U.S. law provides that the government grant import relief when industries are injured from increased foreign competition. Trade adjustment assistance can provide an alternative to import relief in such cases. It is likely that we will be faced by an increasing number of petitions for import relief over the coming months. If TAA is terminated, we could find ourselves under greater pressure to provide import relief in these instances.

TAA for both firms and workers has inherent inequities and inefficiencies that may not be resolvable. These programs would also increase government expenditures in a tight budgetary situation. This must be weighed against the benefits of those programs as alternatives to protection.

To the extent that the lack of adjustment is a key issue, across-the-board benefits to aid adjustment could provide a more efficient alternative to trade adjustment assistance. For example, general incentives for R&D and investment will help firms adjust and general retraining benefits could help all unemployed workers regardless of the cause of unemployment.

E

NEW NEGOTIATING AUTHORITY

ISSUE

Should the Administration continue to seek authority from the Congress to negotiate reductions in tariffs and reductions or elimination of barriers to trade in services, high technology and foreign direct investment?

BACKGROUND

The Administration is currently without authority to negotiate mutual reductions in tariffs. The authority utilized in the Tokyo Round of Multilaterial Trade Negotiations expired in 1980. Authority to negotiate the elimination or reduction in non-tariff barriers imposed against U.S. investment and trade in service and high technology goods would also be useful to strengthen the U.S. hand in pursuing issues internationally. The Administration supported these proposals in the last Congress and they are embodied in the following bills currently before the Congress: H.R. 4761, S. 1902 (increase in tariff authority) and H.R. 6773, S. 2094 (negotiating authority).

RECOMMENDATION

The Administration should continue to seek trade legislation which would authorize the negotiation of reductions in tariffs and the elimination or reduction of barriers to trade in services and high technology, and foreign investment.

Arguments For

-- Enables U.S. to conduct meaningful negotiations with its trading partners on the mutual reduction of barriers to international trade.

-- Provides the basis for U.S. participation in the development of international rules, including dispute settlement procedures, to eliminate or reduce such barriers.

-- Reduction in trade barriers would increase access to foreign markets for U.S. exports. This would stimulate new jobs and production in the U.S.

Arguments Against

-- Tariff cutting authority is strongly opposed by labor and import-sensitive industries.

-- Protectionist amendments are likely to be offered to any such legislation, such as reciprocity requirements.

DECISION

_____ Approve

_____ Disapprove

F

RENEWAL LEGISLATION FOR GENERALIZED SYSTEM OF PREFERENCES

ISSUE

Should the Administration propose legislation for a renewed U.S. Generalized System of Preferences (GSP) program in 1983?

BACKGROUND

The GSP program was implemented in 1976 to encourage the economic development through trade of lesser developed countries (LDCs). The program provides duty-free treatment for most LDC imports into the U.S. The progam expires in 1985. The 19 other OECD countries maintaining GSP programs recently extended their systems through the end of this decade.

The President pledged at Cancun that the Administrations would seek a renewal of the GSP Program. This pledge has been reiterated in many fora including Congressional Hearings, the OECD, UNCTAD and the GATT.

A debate is currently underway in the Congress regarding the extent to which advanced developing countries should be graduated out of the GSP program and whether the United States should begin conditioning GSP eligibility on improved access for U.S. exports in beneficiary country markets.

RECOMMENDATION

The Administration should submit GSP renewal legislation to the Congress by mid-1983 with the goal of securing Congressional approval by the end of the year. Before our proposal is submitted, USTR should hold public hearings on the renewal issue to ensure that all relevant information is fully considered.

Arguments For

-- Renewing authority for GSP in 1983 with the Administration proposed modifications designed to diffuse Congressional opposition (e.g. a strong clearly enunciated graduation policy) will remove GSP from election year sensitivity.

-- Passage of GSP legislation in 1983 with a clear graduation policy will spark interest among LDC's regarding other Administration goals (e.g. negotiations aimed at improving U.S. access to LDC markets).

Arguments Against

-- Congresssional preoccupation with protectionist legislation may remain strong throughout 1983. Despite problems of addressing GSP in 1984, an election year, it might be preferable to wait until that time on the assumption that an economic upturn will reduce protectionist sentiment.

DECISION

_____ Approve

_____ Disapprove

G

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

November 10, 1982

MEMORANDUM FOR THE PRESIDENT

FROM: William E. Brock

On the basis of our discussion of the U.S. Trade Strategy paper in the Cabinet Council on Commerce and Trade on November 8, my staff has prepared a set of decision memoranda for the key issues. I submit them to you for decision.

Attachment

ADMINISTRATION LEGISLATIVE TRADE PACKAGE

ISSUE

The Administration must be prepared to present to the Congress a legislative package of trade bills early in 1983. Several Administration authorities and statutes are due to expire in the coming two years, and thus extension of such measures must be sought. In addition, it is expected that Congress will initiate many new proposals on which the Administration will be required to react.

ANALYSIS/BACKGROUND

The new Congress can be expected to be less supportive of free trade policies and more aggressive in its demand for "fair and equitable treatment" by our trading partners.

In addition to anticipated opposition to much of the necessary renewal legislation, Congress is expected to take up such issues as increased export financing, a new trade adjustment and retraining program, local content requirements for selected industries, and stronger reciprocity trade measures designed to restrict access to the U.S. market. In addition, attempts will be made to limit the President's discretion under existing import relief mechanisms so as to make the process for relief more automatic.

In an effort to retain our traditional constituency of free trade supporters so that the Administration will be successful in accomplishing the legislative trade objectives in the 98th session of Congress, it is suggested that a legislative package be prepared in coordination with Congressional leaders.

Such a package would be a joint Administration-Congressional initiative and would be comprised of new proposals as well as "must" renewal legislation.

Specific items to be included in the legislative package are:

1. Improved, more aggressive export financing plan. (Treasury/EXIM/USTR)

2. Reform of the Foreign Corrupt Practices Act. (USTR)

3. Reform of U.S. anti-trust laws for trade purposes. (Justice)

4. New research and development (R&D) investment inventives for targeted industries in lieu of trade protections. (Commerce/USTR)

5. New trade adjustment assistance and retraining initiative. (Labor/USTR)

6. Reform of U.S. import relief laws and procedures, including section 201, 301, 406, dumping and countervailing duty. (USTR/Commerce)

7. New Presidential negotiating authority, including section 124-- like tariff authority (tariff to tariff), a services and investment mandate (non-tariff), and possible broad "North-South" authority (tariff and non-tariff). (USTR)

In addition to the above list of new proposals, the following renewal or extension legislation must be considered during the new 98th Congress:

1. Legislation providing for a GATT legal substitute for Domestic International Sales Corporation, DISC. (Treasury/USTR)

2. Amendments to the Export Administration Act. (Commerce)

3. Renewal of the Export-Import Bank Charter. (Treasury/EXIM)

4. Legislation to implement the new Harmonized tariff classification. (USTR)

5. Renewal of the Generalized System of Preferences. (USTR)

Members of Congress have already begun to develop ideas on many of these issues, and therefore consultations with Congress are expected to produce an outline of the necessary legislation. Further, the Administration will seek the assistance of Congress in drafting the specific legislative language at the appropriate time.

In this manner, both the Administration and Congressional leaders will share "ownership" of the legislative trade package and broad-based, bipartisan support will be easier to gain.

RECOMMENDATION

That the Office of the United States Trade Representative consult with the Congress in drafting a preliminary outline for a legislative trade package, and report the results to the Trade Policy Committee and the Cabinet Council on Commerce and Trade by December 10.

APPROVE_____ DISAPPROVE_____

EXPORT FINANCING

ISSUE

U.S. companies have lost major export sales as a result of government subsidized financing abroad. The business community has lost confidence in the Administration's willingness to assure that U.S. exporters are not disadvantaged by foreign credit subsidies. The Administration needs an export financing policy and Ex-Im budget that will restore the confidence of the business community.

ANALYSIS/BACKGROUND

Many of our major trading partners provide government-subsidized credits to their exporters. Such subsidies have put U.S. exporters at a serious disadvantage during the past year when interest rates soared. While the return of interest rates to more normal levels has reduced the dimensions of the financing problem, Administration export financing policies remain an issue of major concern to the business community.

Competition among governments on export credit subsidies is kept within bounds by the OECD Export Credit Arrangement. During the past year the United States has been able to achieve some major improvements in that agreement and there is a consensus within the Government on further negotiating efforts to strengthen the agreement. While the agreement reduces the scope for foreign government export credit subsidies, it does not eliminate subsidized credits.

Ex-Im loans and guarantees have traditionally served to offset government export credit programs of other countries as well as to assure the availability of financing for capital projects too large for private sector funding. If interest rates do not rise and if progress continues in improving the OECD Export Credit Agreement, a modest expansion of the Ex-Im Bank's resources will be adequate.

The business community is extremely concerned that if interest rates should rise, other governments will again provide liberal export credit subsidies which will not be offset by the U.S. Government. This apprehension has contributed to a significant erosion of public support for our open trading system, and has led some firms to source major contracts through their overseas subsidiaries where competitive financing appears more likely.

In order to address this concern, the Administration needs to provide assurances that we will not allow our exporters to be disadvantaged by foreign government export credit distortions. This could be done by providing assurances that Ex-Im will provide comparable interest rate subsidies from its reserves or by seeking a larger budget authorization for the direct credit program, if the potential for foreign credit subsidies reoccurs.

To minimize the budgetary outlay expense of a competitive financing program, Ex-Im Bank could increasingly shift from

its present role of providing direct credits to providing guarantees and insurance of private credits and direct subsidies, where that is necessary to offset the export credit subsidies of foreign governments. As U.S. interest rates fall, use of financial guarantees will enable many exporters to secure long-term financing from PEFCO at rates competitive with the financing packages of our major trading partners. Financial guarantees will also be required as commercial banks reach credit limits for specific countries and/or feel unable to assume additional risks associated with overseas lending. Credit subsidies, provided through either the direct credit program or by discounting commercial or PEFCO lending rates, could be used on a more limited basis to match foreign export credit subsidies.

To boost confidence that resource management of Ex-Im Bank programs is firm, Ex-Im Bank could be provided with more specific criteria as to how its program resources -- interest support and guarantee -- should be used. These criteria could be developed by an interagency committee.

RECOMMENDATION

To restore private sector confidence in the Administration's willingness to neutralize foreign export credit subsidies, the following approach is recommended:

Statement of Policy. The Administration should firmly and publicly state that while we will continue efforts to reduce and eliminate export credit subsidies through reform of the OECD Export Credit Arrangement, the Ex-Im will be given adequate resources and authority to neutralize the distortions created by foreign credit subsidies that disadvantage U.S. exporters.

APPROVE_____ DISAPPROVE_____

Ex-Im Budget.

Option 1: The FY 1984 Budget for Ex-Im would include $12 billion in guarantee and insurance authority and $3.8 billion in direct credit authority. Ex-Im Bank would be authorized to use its reserves to provide an interest subsidy on commercial loans where that is necessary to offset foreign credit subsidies.

APPROVE_____ DISAPPROVE_____

Option 2: The FY 1984 Budget for Ex-Im would include $12 billion in guarantee and insurance authority and $3.8 billion in direct credit authority. The Ex-Im would be authorized to provide direct credits above the $3.8 billion level if that becomes necessary to offset foreign credit subsidies.

APPROVE_____ DISAPPROVE_____

AGRICULTURAL EXPORT SUBSIDIES

ISSUE

Foreign agricultural export subsidies are reducing U.S. markets abroad. This has become a major political issue because bountiful crops worldwide have depressed U.S. farm income and increased the competition for foreign sales. The United States needs a strategy that will depend on agricultural trade interests and obtain support of the farm community for U.S. trade policy.

ANALYSIS/BACKGROUND

The European Community (EC) has become the world's second largest exporter of agricultural products with sales outside the Community valued at $22 billion in 1980. Because EC domestic prices in virtually every commodity area are higher than world prices, these sales are possible only with the assistance of direct export subsidies.

High domestic support prices protected by variable import tariffs effectively isolate EC domestic production from import competition. There are almost no controls on domestic production and, as a consequence, the EC is more than self-sufficient in virtually every commodity area except fruits and vegetables. Production in excess of domestic needs is exported with the assistance of subsidies in order to protect domestic prices. There is no limitation on the amount of monies which can be spent to subsidize exports. In 1982, $6 billion, or 50 percent of the EC's budget for agricultural market support, will be spent on direct agricultural export subsidies. Fifty percent of these monies are used to subsidize exports of dairy products alone.

Aside from the $500 million in blended credit which you recently announced to assist U.S. agricultural exports, the United States has no direct export subsidy programs. U.S. agricultural exports valued at $40.5 billion this year will be slightly below last year's sales. This will be the first time in 13 years that the value of U.S. agricultural exports has not shown a year-to-year increase.

The United States has sought to discipline the EC's use of export subsidies by challenging the practice on a product-specific basis in the General Agreement on Tariffs and Trade (GATT); i.e., wheat flour, sugar, poultry and pasta. The GATT process has been particularly slow, and there is no guarantee that the cases will be adjudicated in favor of the United States. This is because the GATT rules permit export subsidies on primary products so long as the subsidies do not result in the country obtaining more than an equitable share of world trade, displacement in individual markets, or material price undercutting.

At the November 29 meeting of the GATT Ministerial, the United States will be seeking a commitment on the part of the Ministers to a standstill on the introduction of new subsidies and a

phase-out of current subsidies on primary products. While a number of countries are prepared to support such a proposal, including Australia, New Zealand, Canada and key developing countries, the EC has made it clear that it will agree only to study the definitions underlying the current GATT rules on agricultural export subsidies. While we agree that a discussion along the lines proposed by the EC could lead to some improvements in the discipline on agricultural subsidies over the long run, we have no indication that the EC has developed the political will to reach concrete agreements on the issues involved any time soon. Given the EC's intransigence in the area of agricultural export subsidies, we feel that the only way the EC can be led to alter its practices is for us to engage in an active export subsidy program aimed at specific markets and commodities so as to affect EC exports.

RECOMMENDATION

1. The United States should create a war chest for the purpose of meeting EC subsidized competition. The initial funding should come out of the $75 million that is left out of the $175 that was appropriated in the last session. In addition, if necessary for negotiating purposes, USDA should be authorized to supplement these funds from their monies available in other USDA programs, up to an amount of $900 million. USDA and USTR would develop a mechanism to see that the funds are used in the best manner so as to obtain the desired objective.

APPROVE_____ DISAPPROVE_____

2. Sell U.S. dairy products stocks on the international market. USTR should be authorized to consult with Australia and New Zealand about appropriate compensation since unsubsidized dairy sales from these countries are likely to be displaced as a result of U.S. action. Some of the U.S. sales may eventually end up in the Soviet Union; this could be minimized if sales to the Soviet Union were prohibited when the U.S. tenders were announced.

APPROVE_____ DISAPPROVE_____

U.S. GOVERNMENT IMPOSED DISINCENTIVES TO EXPORTS

ISSUE

The business community remains concerned about a number of export disincentives. Useful progress has been made during the past two years, but the business community remains concerned about certain aspects of the Foreign Corrupt Practices Act, the Export Administration Act, the antiboycott laws and various government regulations.

ANALYSIS/BACKGROUND

The Administration decided in February 1980, to reduce or eliminate a number of export disincentives. Priority was to be given to passage of legislation to (a) liberalize the method of taxing foreign earned income by Americans working abroad, (b) facilitate the formation and operation of export trading companies, and (c) eliminate uncertainties over the meaning and application of the Foreign Corrupt Practices Act (FCPA).

These objectives have now been achieved, except for legislation to amend the FCPA, which has not yet cleared the House. The progress that has been made has been viewed positively by the business community. The following issues remain to be addressed:

1. The Foreign Corrupt Practices Act - Legislation to clarify ambiguities in the Act has passed the Senate but not the House.

2. The Export Administration Act (EAA) - Scheduled for renewal in 1983, under this Act, export controls may be imposed for reasons of national security, foreign policy and inadequate supply. In many cases such sanctions have not been effective in changing the policies of those governments they are aimed at and have resulted in lost U.S. export sales. A number of U.S. industries believe that unilateral U.S. imposition of export controls has seriously weakened their ability to compete. These industries accept the need for national security controls, although they want them held to the necessary minimum and imposed on a multilateral basis. With regard to foreign policy considerations, the black community supports controls vis-a-vis South Africa, and the Jewish community supports controls vis-a-vis the more extreme Arab States on terrorist grounds; the business community generally opposes such controls.

Developing an Administration position on renewal of the EAA will require reconciliation of often-conflicting trade policy, national security and foreign policy objectives.

3. Antiboycott laws - Two separate statutes (the Export Administration Act and the Tax Reform Act) administered by two different agencies (Commerce and Treasury) govern U.S. antiboycott behavior. Behavior permissible under one act may be restricted by the other, and vice versa. The business community strongly feels these differences should be reconciled. This issue will be very difficult to deal with, however, since there is no indication that the Jewish community in the United States would support legislative changes. Because the Export Administration Act is the most recent statutory provision and because it faces renewal next year, consideration of the EAA provides an excellent opportunity for removing conflicts among these provisions.

4. Deregulation - Numerous government regulations impede exports. USTR and OMB have recently agreed to work together to try to reduce these regulatory burdens on a case-by-case basis. To date, USTR has recommended elimination of regulations that (1) impose an artifically low ceiling on agent commissions for commercial sales under DOD's Foreign Military Sales program, and (2) requires extraterritorial environmental reviews by Government agencies for export transactions. USTR and OMB should conduct a broader interagency examination for other subjects that might be candidates for deregulation.

RECOMMENDATION

A. The TPC should initiate a work program to liberalize the Foreign Corrupt Practices Act, antiboycott laws, and burdensome regulations; the trade advisory committees (and the Jewish community on antiboycott) should be consulted in developing the Administration's position.

APPROVE_____ DISAPPROVE_____

B. Because the Export Administration Act is principally administered by the Department of Commerce, that agency should lead an interagency review to develop the Administration's position on renewal of the EAA early next year. The trade advisory committees should be extensively consulted as this position is developed.

APPROVE_____ DISAPPROVE_____

DISC

ISSUE

The Administration must propose an amendment to DISC legislation designed to address the finding of a GATT panel that the existing DISC is inconsistent with U.S. obligations under the GATT. The primary issue is whether an amended DISC program should provide the same level of benefits as the current DISC program. The business community views a reduction in the level of DISC benefits as an increase in business taxes.

ANALYSIS/BACKGROUND

The DISC issue remains a serious irritant to U.S.-EC trade relations. The DISC dispute has become an obstacle to progress in the GATT Council on other issues of major concern to the United States. In order to remove this obstacle, the United States announced at the October 1 GATT Council meeting that it would propose to the next Congress an amendment to DISC designed to make it consistent with the GATT.

The Congress is anxious to hear the Administration's views on a DISC alternative. Hearings will be scheduled on DISC in the Senate and possibly the House when Congress returns on November 29. The Administration will be invited to testify and must develop a position on DISC before Congress reconvenes. The Treasury Department now is preparing the analysis upon which an Administration position will be based.

The business community is willing to accept changes in the DISC that would make it clearly GATT consistent. There is strong opposition in the business community and in the Congress to any change in DISC that would increase taxation of export income because U.S. exporters already carry a greater tax burden than do their foreign competitors.

Making a proposal that is acceptable to the business community is critical because DISC has become a highly visible element of the Administration's export policy. Almost 8,000 U.S. companies currently have DISCs. The Administration was severely criticized by business interests last year for reducing DISC benefits by 15 percent in the Tax Equity and Fiscal Responsibility Act of 1982. There would be strong opposition in the business community and the Congress to a new DISC program that would increase the taxation of export income.

RECOMMENDATION

That the Treasury Department complete its analysis of DISC alternatives by November 29 and the Administration adopt a DISC proposal which does not increase the taxation of export income.

APPROVE_____ DISAPPROVE_____

ANTITRUST

ISSUE

How can the Administration clarify and modify its antitrust policies in a manner which will promote the competitiveness of U.S. goods and services in world markets?

BACKGROUND

U.S. antitrust policies increasingly need to take account of international competition. The Justice Department has recognized this need, and has increasingly modified its policies in light of international competitive factors. As can be expected during a period of change, however, there is a great deal of ambiguity which bothers the business community. Of particular concern to businessmen are the following:

U.S. law is ambiguous on the extent to which companies can form arrangements to share their research and development efforts. In some sectors, particularly high technology, the lack of cooperative research and development has put the United States at a competitive disadvantage internationally. In contrast to U.S. policy, the Japanese Government encourages intercompany sharing of research and development. There is a widely held view that this has facilitated their worldwide success in the semiconductor market at the expense of U.S. manufactures.

Another issue concerns the definition of a competitive market. While interpretations of our antitrust laws by the Justice Department have been moving towards a broader global market concept, a clear statement on this issue would be helpful in guiding public policy and achieving a national consensus.

Another issue concerns the degree to which U.S. foreign subsidiaries may conform to local rules of competition without being subject to liability under U.S. antitrust laws.

RECOMMENDATION

An Interagency Task Force, chaired by the Department of Justice, should be established to formulate a clear statement of U.S. antitrust policy with respect to cooperation on research and development, applicability of U.S. antitrust standards to U.S. subsidiaries abroad and the definition of a competitive market.

APPROVE_____ DISAPPROVE_____

INDUSTRIAL ADJUSTMENT

ISSUE

America's basic manufacturing industries are experiencing high and rising unemployment (in some cases approaching 50 percent) and major financial losses which could result in significant bankruptcies. At the same time, imports are increasing in many of these same industries; pressures for import protection are growing and may get out of control. To resist growing protectionism, we must develop an easily identifiable, trade-related adjustment program that helps industries and workers adjust to changing economic circumstances.

ANALYSIS/BACKGROUND

Plant closings and layoffs in America's basic industries have increased dramatically over the past year. This is the third year of recession in these industries. Forecasts for 1983 and 1984 do not suggest substantial improvement. While investment and employment in these industries have fallen precipitously, imports of the products they manufacture have continued to increase. As a result, we can expect growing demands for import protection in coming years that will prove increasingly difficult to resist.

U.S. law requires that government provide import relief where industries are injured. Our only real alternative in cases of import-impacted injury is to provide adjustment assistance. Yet, the existing trade adjustment programs for firms and workers have lost their creditability and, as a result, their funding. We must design and adequately fund viable trade adjustment programs that encourage firms to adjust positively and workers to seek alternative jobs, and, if necessary, retraining.

At the level of the firm, the government needs to help encourage private investment, innovation and adaption without telling industry what to do. Industrial planning should be left to the private sector. One critical need is for federal R&D spending to be redirected or for new funds to be provided for commercial R&D relevant to trade-impacted firms and industries. (Today, most federal R&D funding goes into noncommercial research. U.S. funding of commercial research lags far behind Japan and other developed countries.)

Funds should be committed in ways relevant to the nature of the adjustment problems facing particular sectors. Waste could be minimized by requiring matched private sector funds. In some sectors, current lines of production could be made more competitive through additional investment in industrial innovation. In such cases, funds would be used

to support research and development to improve competitiveness. In other cases, where an old line of production is not economical, R&D funds may be used to promote innovation in new lines of activity.

For workers, we need a well-conceived, adequately-funded and effectively-managed program which focuses on adjustment rather than income maintenance. The program should

-- emphasize job search before training,

-- improve job search through job clubs, etc.,

-- reduce training costs with vouchers,

-- grant blanket worker TAA certifications when providing import protection to spur desired adjustment, and

-- shorten the certification process.

Estimates are that 60 percent of all structurally displaced workers are trade-impacted. An effective, trade-related job search and training program will help these workers adjust to structural changes and, at the same time, will be of significant benefit in resisting protectionism. Although requests for job search and training assistance were low in the past, changes in the program and the growth of permanently displaced workers should increase demand for the program.

RECOMMENDATION

Action Item 1: We should develop a program which will provide trade-impacted firms with matching federal funds for R&D and market research. Such a program should be based on adjustment plans prepared by impacted industries. $1 billion should be budgeted for this purpose.

APPROVE_____ DISAPPROVE_____

Action Item 2: We should develop a worker adjustment program that will provide training and job search services for trade-impacted, structurally displaced workers. $170 million should be budgeted for this purpose.

APPROVE_____ DISAPPROVE_____

IMPORT RELIEF

ISSUE

While the Administration has been opposed to protectionist actions, it recognizes that there are occasions when temporary trade relief is desirable and has granted relief in such cases. Trade relief may be ineffective in some instances, however, because non-trade factors may pose more fundamental problems to the industry, and no provisions are made for dealing with such problems on a comprehensive basis. Moreover, current procedures, which require approximately eight months before relief is granted, may not adequately deal with problems created by import surges.

ANALYSIS/BACKGROUND

Section 201/203 of the Trade Act of 1974 provides that the President may grant an industry import relief, not to exceed five years, with a possible three year extension, if he determines that such relief would be in the national economic interest, and if the International Trade Commission (ITC) has found that imports are a substantial cause of serious injury. A principal rationale for granting such import relief is that temporary protection gives industries time to make an orderly adjustment to import competition.

Administration of the import relief statute has been criticized on two major grounds: (1) Because the decision whether or not to grant relief is made without considering other causes for the industry's problems, protection frequently fails to result in increased industry competitiveness, and (2) the decision whether or not to grant import relief takes about eight months, during which time the industry may be vulnerable to sizeable import surges of foreign goods.

With regard to the adjustment issue, industries injured by import competition typically face a broad range of problems that affect their basic competitiveness, such as excessive federal regulations or wages significantly out of line with productivity factors. Historically, in granting temporary import protection, the Executive Branch has not considered this broad range of problems. As a result, industries are frequently still unable to compete even after protection of three to eight years.

With relatively little difficulty, the government could give greater emphasis to adjustment factors in considering petitions for import relief. The ITC could request more information on broader competitive factors in accepting the initial petitions for relief and could analyze these factors as part of its report to the President. The Executive Branch could examine whether or not government programs, particularly

of a regulatory nature, are also causing injury to the industry, and whether or not there are other measures that might be taken to promote adjustment. Additionally, the Executive Branch could require the private sector to consider how it proposes to use relief to become competitive. Finally, if an industry takes measures to lessen its competitive posture while it is being given import protection (such as granting clearly excessive wage increases), the President could immediately terminate relief.

A staff level subcommittee of the Trade Policy Committee is reviewing broader consideration of adjustment issues. Its work, to be completed by early December, could be incorporated in a broader trade package.

Interagency work on the need for "fast-track" relief in emergency situations has not yet been launched, although the issue was raised in the context of the Caribbean Basin Initiative. As a general rule, the deliberative process set out by Section 201, which requires eight months from the time of petitioning for relief to the Presidential decision, is desirable. Because import relief represents a tax on consumers, all affected parties need the opportunity to make their views known. Further, these deliberative procedures ensure that protection will be granted only in those limited cases where it is appropriate.

In some situations, however, more immediate relief is needed, since an industry may suffer severe injury while the deliberative process is being carried out. (The GATT currently provides for such a "fast-track," although U.S. law does not.) For example, the growing season for some agricultural products would be over before the eight month process would have elapsed.

Our institutional process for considering import relief helps to assure that such relief is granted only where it is truly needed. In order to assure that a new "fast-track" process did not become merely an easier way of obtaining import relief, strict criteria would have to be established for determining whether an import-surge situation exists.

RECOMMENDATION

The TPC should be asked to develop by January 1 an approach for dealing with import surges.

APPROVE_____ DISAPPROVE_____

The TPC should be asked to develop by January 1 proposals for a more comprehensive approach to adjustment problems faced by industries injured by import competition.

APPROVE_____ DISAPPROVE_____

REVIEW OF LONG-TERM TRADE ISSUES

ISSUE

The increased importance of trade to the United States has increased the domestic economic impact of the industrial and regulatory policies of other governments. The world economy will go through major structural adjustments in the years ahead that will intensify the domestic debate over the appropriate future course of trade policy. The United States needs to develop a new public consensus on how it can best deal with the changing realities of the world market place.

ANALYSIS/BACKGROUND

The United States finds its competitive position in world trade increasingly challenged. Partly this is due to the growing competitiveness of other countries. Partly it is due to the more active and aggressive support of other governments for their own industries.

The United States, as other developed countries, is also experiencing difficult structural adjustment problems which are putting severe pressure on many basic industries.

There is developing in the United States a greater sense of vulnerability to the outside world, and this has led to a growing public debate over U.S. trade policy. Traditional supporters of an open trade policy are questioning the wisdom of that policy, and this now threatens the bipartisan nature of U.S. trade policy.

There is a need to forge a new domestic consensus, taking account of the new realities of the world economic environment.

One approach to facilitate this objective would be to appoint a public commission that could examine the requirements of an effective trade policy to meet the challenges of the world market during the next decade. The membership of such a commission would be drawn from industry, agriculture, labor, the Congress, the academic community and the Administration.

RECOMMENDATION

Bill Brock should be authorized to put together a public commission, and a small support staff, with the mandate of reviewing the position of the United States in the world economy and evaluating the implications for U.S. trade policy. The commission would be asked to report its conclusions within a year of its establishment. A budget of $500,000 would be made available for this purpose.

APPROVE_____ DISAPPROVE_____

Next 26 Page(s) In Document Denied

Approved For Release 2009/05/01 : CIA-RDP84B00049R001700280006-3